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SUBJECT: Pearl River Flotsam and Jetsam, July 24, 2007

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¶1. (U) SUMMARY: This is the first in a series of periodic cables that will feature snapshots of the Guangzhou consular district. We expect to cover items that are timely for Washington consideration but at this point, do not merit fuller treatment. We are, of course, willing to take a second look at some of the matters raised in these "miscellany" cables should there be interest. Highlights of this first piece include: labor unrest; the new role of public relations firms; American company complaints and concerns about technology transfer restrictions; food and water; a mass swim in the Pearl River; foreign firms that focus on middle-class Chinese; and the change in Haikou city leadership. END SUMMARY

Unrest and Apparent Resolution in Heyuan

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¶2. (U) The June 29 labor dispute at a hydroelectric plant construction site in Guangdong's Heyuan city appears to have been resolved. Approximately 300 employees of Qiutian Construction Company, a contractor of Fuyuan Hydropower Development Company, had earlier complained to Fuyuan management that they had not been paid for four months. When their demands for compensation were turned down, the angry migrant workers started to dismantle installations at the power station - and not surprisingly, they were attacked by roughly three hundred thugs armed with spades, axes and steel pipes. Three of the workers died from wounds sustained during the melee.

¶3. (U) The Dongyuan county government reportedly resolved the situation by forcing the construction company to compensate the unpaid workers; more than RMB 140,000 (roughly USD 18,500) in wages has already been paid to eight workers, with the remainder of their colleagues expected to be paid soon.

New Roles for Public Relations Firms

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¶4. (SBU) The influence of public relations campaigns on both government policy and legal rulings is increasing in South China. Coalition-based lobbying (CBL) is becoming a popular instrument for companies looking to influence government policy in China, particularly in the field of intellectual property. According to Marc Parich, whose public relations firm APCO Worldwide pioneered the first CBL model, coalition-based lobbying provides investors an opportunity to present controversial views to the government while insulating them from negative government

or media reaction. Parich points to the success of APCO's Intellectual Property CBL, the Quality Brands Protection Committee (QBPC), as an example of the popularity of the CBL method. As of today, QBPC is comprised of more than 160 multinational companies representing over USD 70 billion of investment in China.

**¶15. (SBU)** When it comes to supporting litigation, public relations firms are finding opportunities in South China that are unavailable in other parts of the country. According to Ouyang Jun, a former government official and current associate director for APCO Worldwide, this is primarily due to the region's welcoming business climate. As part of its litigation support strategy, APCO promotes its clients through media conferences and television and newspaper interviews. Although Jun cautions against being too critical of the opposition in litigation, he believes that the process, when handled sensitively, has influenced public opinion and even affected the outcome of several litigations. Jun noted that the media in South China has been especially receptive to assisting in this area, as commercially-related topics are one of the few subjects which the press is relatively free to explore.

Complaints from Across the Sea

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**¶16. (SBU)** While the majority of complaints by businesspeople in South China relate to local regulatory impediments, many companies have also raised concerns about the discriminatory treatment of several U.S. regulations. In particular, some companies are worried that technology transfer restrictions have put them at a competitive disadvantage with their European competitors; the latter often face fewer barriers to the types of technology

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allowed for export. According to APCO Worldwide, clients primarily complain when the restriction applies to a particular technology which is already openly available in the Chinese market. Nevertheless, this has led many, such as Nicholas Blank, Director of Kroll Asia, to counsel U.S. clients to err on the side of caution by not selling any technology which could conceivably have a dual-purpose use.

**¶17. (SBU)** In contrast, few companies in South China have complained about, or received, penalties for violations of the Foreign Corrupt Practices Act. In a business climate often fraught with issues of corruption, foreign investors have generally maintained compliance with U.S. regulations on prohibited payments to government officials. Similarly, U.S. companies in the region have had few complaints related to the Alien Tort Statute, which regulates the treatment of employees by American companies overseas. According to Harley Seyedin, President of AmCham - South China and CEO of First Washington Group, which established the first Western majority-owned power plant in South China, this is a direct reflection of the favorable treatment received by local employees of U.S. companies in the region. In its 2006 report, AmCham - South China reported that less than twenty-five percent of U.S. companies were concerned about criticism for operating "sweatshops" in the country. Seyedin estimates that figure has dropped below twenty percent in the past year.

Man Bites Rat! And Drinks Unsafe Water!

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**¶18. (U)** Guangdong Party Secretary Zhang Dejiang is concerned about news reports that rats from Hunan are being sold in Guangdong for food, and has asked relevant government agencies to put an end to the rat-selling. The Guangzhou Food Safety Office and the Guangzhou Food and Drug Administration have warned citizens against eating rats, but reports of truckloads of the vermin making their way to Guangdong persist. This is one of those delicacies that the

Chinese used to (but no longer necessarily) enjoy putting on a platter in front of a visiting guest and joking about the disposition of Mi Lao-shu (or Mickey Mouse).

¶ 9. (U) The Guangdong Water Resource Department reported on July 18 that 16.65 million people in the province drink water with excessive fluorine, excessive arsenic, or water with a bitter and salty taste. According to the Eleventh Five-Year Plan, Guangdong's goal is to solve the unsafe drinking water problem for 7.5 million people. Presumably, the remaining 9.15 million people hope to be included in the next Five Year Plan.

#### Human Flotsam

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¶ 10. (SBU) Weeks in the making! A pivotal moment in the environmental clean-up of the once heavily-polluted Pearl River! Imagine, if you will, the image of 3,600 people, including senior city officials, from "danweis" large and small, swimming between Sun Yat-sen University and the Xinghai Conservatory? What could better demonstrate the commitment to a "green" water system? Well, start with the fact that three weeks before the big swim, the flow of water from other polluted rivers was blocked off. Then every day, for 21 days running, a fleet of small vessels with large nets trawled the area where the swim would take place, removing everything from leaves and Styrofoam containers to the odd fish or tennis shoe floating on the surface. Of course, while removing the "debris," the boats left behind an oil slick that was hardly "environmentally friendly."

¶ 11. (SBU) And then the big day: pomp (speeches and skiing and racing boats) and ceremony (more, but better speeches because they were read out by "higher ups."). The big moment came when, flashbulbs a-poppin', city officials jumped in for the all-important photo - only to jump out and be replaced by others in the big swim. Well, "float" would be more like it. It is unclear whether there really were 3,600 participants, but there were enough to make it look that way; surrounding the signs (suspended on pontoons) of the various organizations were hordes of people, in circles or oblongs, perched on top their floats, paddling along from one side of the river to the other. And then it was over, a great success!

¶ 12. (SBU) Day two: the water was a curious brackish green and brown. We asked why. Well, the water from the other rivers was flowing back in and adding a bit of "color." And besides, the swim (float) was over, the Pearl River

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saved (for one day at least) and next year would see a bigger and better event, for sure.

#### Major Companies Shifting Focus Toward Domestic Market

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¶ 13. (SBU) Production of goods or services for the China market currently ranks first among the top company goals for foreign invested enterprises (FIEs) in South China. Many businesspeople in the region attribute this to the increased purchasing power of China's rising middle class. Proctor & Gamble, for instance, no longer produces a single bottle of shampoo in South China for export to the United States, and instead invests solely in the production of a lower-quality good directly targeting middle-class Chinese. Similarly, IBM recently has invested millions of dollars in research and development to uncover new strategies for tapping into China's middle markets. According to the local American Chamber of Commerce, the fact that China's burgeoning middle class remains mostly untapped will continue to invite large amounts of investment from a wide range of industry sectors.

New Acting Mayor for Haikou

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¶14. (SBU) The Haikou Foreign Affairs Office notified post on July 17 that Xu Tangxian had recently been elected Acting Mayor of Haikou City. NOTE: Haikou, with a population in excess of 600,000, is the capital of Hainan Province. END NOTE. Xu, most recently the Executive Vice Mayor of Haikou, has held a series of jobs in both local government and the Communist Party since 1999. Prior to that, he taught at Zhongnan University of Finance and Economics. On leave from the university, Xu studied accounting in the United States from 1992-1995. Xu was born April 1954, in Hubei province.

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